

2600 Fresno Street
 Fresno, California 93721-3608
 (559) 621-8350
 FAX (559) 488-1078
 www.fresno.gov

FRESNO'S "ENTERPRISE ZONE"

Summary of Benefits & Qualifying Criteria

Overview

- Enterprise Zones were established in California to stimulate development and hiring in selected economically depressed areas, to help make the State of California more competitive.
- This program allows businesses within Enterprise Zones to reduce or eliminate their state income taxes!
- Fresno's **Original** Enterprise Zone was designated on October 14, 1986 and expired on October 14, 2006.
- Fresno's **New** Enterprise Zone was designated on October 14, 2006 and is scheduled to expire on October 14, 2021!

What are the Benefits of an Enterprise Zone?

- ◆ Hiring Tax Credit – *Currently up to \$36,660 for each qualifying employee!*
- ◆ Sales & Use Tax Credit
- ◆ Business Expense Deduction
- ◆ Net Operating Loss Carryover
- ◆ Net Interest Deduction for Lenders
- ◆ Employee Wage Credit

◆ Hiring Tax Credit

Amount of credit – based on a percentage of the employee's wages over the first 5 years of their employment. Fifty percent (50%) of an employee's wages may be claimed as a credit in the first year of employment, 40% in year 2, 30% in year 3, 20% in year 4, and 10% in year 5. The credit calculation limits the wage rate to the lesser of the actual hourly wage paid or 150% of the minimum hourly wage. Overtime hours can also be used to generate credits.

Example: An employee hired 1/1/07 works 2080 hours/year. Wages paid at a rate over 150% of the minimum wage would generate the following credit amounts over the first 5 years of their employment:

Year of Employment	Hours Worked	150% of Minimum Wage	Credit Rate	Tax Credit
1	2080	\$11.25	50%	\$11,700
2	2080	\$12.00	40%	\$ 9,984
3	2080	\$12.00	30%	\$ 7,488
4	2080	\$12.00	20%	\$ 4,992
5	2080	\$12.00	10%	\$ 2,496
Total 5 year Credit =				\$36,660

* Due to whole number round-offs, totals may not be exact.

Qualified Employees – Employers conducting a trade or business inside an Enterprise Zone may claim the hiring credit for wages paid to a qualified employee who, immediately preceding employment, was:

1. Eligible to receive subsidized employment, training or services under the terms of the Federal Job Training Partnership Act (JTPA)/Workforce Investment Act (WIA).
2. A member of a targeted group as defined by the Federal Work Opportunity Tax Credit (WOTC).
3. An economically disadvantaged individual 14 years of age or older.
4. A qualified dislocated worker.
5. A disabled individual who has completed, is eligible for, or enrolled in a state rehabilitation plan.
6. A veteran who is: a veteran of the Vietnam Era, a service connected disabled veteran, or a veteran who recently separated from military service.
7. An ex-offender.
8. Eligible for, or a recipient of various forms of public assistance such as: SSI, AFDC, Food Stamps or State/Local public assistance.
9. A Native American
10. A resident of a Targeted Employment Area (TEA)

In addition, at least 90 percent of the employee's work must be directly related to a trade or business activity located in the Enterprise Zone and at least 50 percent of the employee's work must be performed inside the boundaries of the Enterprise Zone.

Application of Credits – The tax credit is used to directly offset state income tax subject to certain limitations. Any excess unused credits may be carried forward to offset taxes in future years. (Please consult your tax professional or CPA for more information)

Retroactive Vouchering & Tax Refunds – Employees hired in prior years may still be vouchered if found to be qualified (with proper documentation). Refunds for state income taxes paid in prior years may be refunded by filing amended returns.

◆ **Sales & Use Tax Credit**

Employers conducting a trade or business inside an Enterprise Zone may claim a credit for the sales or use tax paid or incurred on the purchase of certain qualified machinery or equipment.

Qualified machinery must be machinery used to do one of the following:

- Manufacture, process, combine or otherwise fabricate a product.
- Produce renewable energy resources.
- Control air or water pollution.
- Handle data or communications (i.e. computers, telephones, fax machines, etc.)

◆ **Business Expense Deduction**

Businesses conducting a trade or business within an Enterprise Zone may elect to treat 40% of the cost of qualified property as a business expense in the first year it is placed in service.

- Qualified Property includes, but is not limited to, tangible personal property (excludes buildings) acquired by purchase for exclusive use within the Enterprise Zone.
- The amount of the deduction is limited to \$20,000. (\$50,000 @ 40% each year)

◆ **Net Operating Loss Carryover**

Qualified taxpayers conducting business within the Enterprise Zone may elect to carry forward 100% of their NOL for a 15 year period (rather than 10 years).

◆ **Net Interest Deduction for Lenders**

A deduction from income is allowed for the amount of “net interest” received from loans made to a trade or business located in the Enterprise Zone. The lender is not required to be located within the zone.

◆ **Employee Tax Credits**

Employees who work in an Enterprise Zone may also be eligible to receive a state income tax credit. The credit is 5% of the first \$10,500 of wages earned in the zone each year – a maximum of \$525.

- Limitations – no credit is available for single taxpayers with an annual gross income (AGI) over \$16,333 and married filers with an AGI over \$22,167.
- The credit may only be applied against state income tax liability in the year generated and may not be refunded or carried over.

* * * * *

The City of Fresno Economic Development Department is committed to providing the best possible information and service. However, for detailed information on all of the above discussed potential benefits please contact your professional tax preparer or accountant to discuss how these potential benefits may apply to your business.

For a list of accountants and consultants in your area, or to be added to this list, please contact us at (559) 621-8350.

You are also invited to visit our website at www.fresnoez.com or call us at (559) 621-8350.
We would love to hear you grow!